OPERATIONS AND REGULATORY SERVICES – CONVENTION CENTER

Mission Statement:

Created to foster economic growth and vitality, the Minneapolis Convention Center (MCC) hosts activities and events to benefit and showcase Minneapolis.

Working together to deliver the highest level of service, we will lead the hospitality industry.

Primary Businesses:

Providing public assembly space and event related services

The Minneapolis Convention Center (MCC) provides public assembly space and related services, including equipment, technological services, and event expertise to a variety of local, regional, national, and international clients so they can entertain, educate, and/or sell products to their clients and guests. These clients and their guests contribute to the economic vitality of the City of Minneapolis by purchasing goods and services and contributing to the tax base.

Key Trends and Challenges Impacting the Department:

Overview

The Minneapolis Convention Center (MCC) is entering a time of challenge, but also a time of opportunity. On April 1, 2002, the MCC welcomed the first trucks from the AFL-CIO Trade Industries Show at the docks of Hall B. This marked the first event to move into the expanded MCC. The completion marks the end of one long journey, but it also marks the beginning of a challenge to fully utilize the new space.

The expansion resulted in significant additions to the existing facility. Following is a summary of the changes in MCC spaces.

	Pre-Completion	Post-Completion	Difference	% Increase
Gross Square Footage	800,000	1,500,000	700,000	88%
Exhibit Space	277,000	475,000	198,000	71%
Largest Contiguous Exhibit Space	277,000	376,000	99,000	36%
Ballroom Space	28,000	88,000	60,000	214%
Exhibit Halls	3	5	2	67%
Meeting Rooms	54	87	33	61%
Fixed Seats	-	3,400	3,400	New Feature

Expenses

The staff of the MCC has worked diligently to keep a tight reign on operational expenses. A thorough reorganization was planned to allow us to increase service while, minimizing increases in staff due to the expansion. Every attempt has been made to place our dollars where they impact the customers most. To that end, while increasing total FTE's from 141.4 to 213.2 between 2000 and 2003, we have made no increases in appointed management staff (in fact we returned one appointment in 2001) or administrative support staff. We have slightly higher increases in training and education/travel budgets in 2003 to address deficiencies and to provide opportunities for our management level staff to increase their professional development. In order to do this without disproportionate increases in these line items, we have reevaluated the travel budgets provided for directors and reallocated some of these funds to other staff members.

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Following is a comparative breakdown of the increases in several key budget areas over the last 2 years.

	Pre-Completion	Post-Completion	Difference	% Increase
Utilities	2,119,000	3,323,250	1,204,250	57%
Personnel Budget	7,511,485	10,610,192	3,098,707	41%
FTE's	141.4	213.2	72	51%
Supervisor & Professional FTE's	17	25	8	47%
Appointed FTE's	9	9	-	0%
Travel and Education	32,245	47,195	14,950	46%
Training	21,860	38,600	16,740	77%

In Fiscal Year 2003, the MCC will operate within the target budget without request for additional funds or special one-year decision packages. Within this budget, we will begin to address various issues of tying the existing facility to the new and providing equal service levels to both areas of the facility. Due to lower than expected revenue projections for the first two years of operation for the MCC, the MCC has contained all costs for these items in its base budget.

Revenue

While the immediate impact of September 11, 2001 was minimal to the MCC, the short to medium range impacts are becoming readily apparent. Many of the MCC shows are showing major drops in attendance. Corporations began to show a hesitation to book celebratory or year-end events during the fourth quarter of 2001 and many firms tightened their travel budgets. Coupled with facility opening jitters, the net effect has been a significantly weaker opening than expected. While April 2002 rentals were 233% above the average of the previous 6 years, May saw a return to normal figures as May 2002 netted \$20,000 less than the average of the preceding 6 years. After a thorough review of all business booked for 2002 and 2003 in May 2002, we have made significant adjustments to our revenue projections for both years. While revenue is weaker than expected in these first two years, the booking rate of the GMCVA provides encouragement that the long term occupancy rates will begin to work themselves back to the levels experienced by the old facility prior to the expansion.

New Solutions

Rent typically accounts for approximately 48% of all MCC revenue. With significantly increased utility and personnel expenses to service the additional 700,000 square foot of space in the expanded center, the MCC will continue to face larger than desirable operating deficits until rental increases significantly or the MCC can begin to recoup a significantly higher percentage of ancillary revenues.

To help generate new revenue outside rent, the MCC is currently exploring ways to move away from being a four-wall rental towards being a full service facility. The challenge will be to increase profit centers without removing all customer options. The attempt will be to create exclusives for some key profitable services and developed preferred vendor lists for areas where more competition is desirable or necessary. To this end, the goal of the MCC is to increase non-rental revenues from 52% to 57% of all revenues during fiscal year 2003.

In fiscal year 2003, four major services will be developed as exclusives, preferred contractors or in-house providers. We have identified event security, medical services, event radios, and business services (copying, printing, faxing, and shipping) as areas, which can provide additional revenue while increasing the level of service to our clients. The MCC is currently at various stages of preparation for providing these services, and will go online with each in Fiscal Year 2002.

As each package is developed and finalized, an RFP for provider will be submitted and a request for additional funds offset by corresponding revenue will be presented. Each of these items are profit centers with straight pass-through costs so no package will be presented that would result in a net loss.

Additionally, the MCC is exploring several other areas for inclusion in its service package. The criterion for including new services will be profitability, ease of integration, and ability to service customers. Areas of exploration are ticketing, and ISP services.

Finally, the key untapped revenue sources for the MCC are naming rights and advertising displays. During late Fiscal Year 2002 and early 2003 the MCC will begin looking at how it can package it's unfinished space with areas in the expansion and potential display opportunities to find the most profitable combination to the facility. The primary goals are revenue creation and completion of the two large unfinished spaces on the Lower Level of the expanded MCC. \$100,000 is included in the base budget for research and development funds to secure the services of a firm to help package the proper naming rights product and to develop an integrated plan for all video signage and imaging within the facility. While a naming rights package progressed to the point of a memorandum of understanding early in the expansion project, the MCC believes there are sufficient changes in the marketplace to warrant a fresh review of it's product prior to searching for a new potential suitor.

Summary

Fiscal Year 2003 will be a year of challenges and transition. It will mark the movement from a focus on opening the new facility to a need to fully utilize the facility and maximize revenue. The MCC management team is prepared for the challenges ahead as we continue to keep a tight reign on expenses and begin a new search for additional revenue sources. At all times the focus will be on servicing the customers of the Minneapolis MCC and the City of Minneapolis.

Key Enterprise Outcome Measures Influenced by the: Minneapolis Convention Center

- 1. Enhance the viability of the retail establishments downtown.
- 2. Increase the number of people attending events downtown.
- 3. Increase the number of visitors downtown.

Performance Data for Key Enterprise Outcome Measures:

	2000 Actual	2001 Actual	2002 Estimated	2003 Planned	2003 Approved
\$ value of convention delegate spending	127,545,000	125,545,000	170,274,000	177,970,000	177,970,000
# of people attending events at the MCC	1,000,243	1,000,500	1,100,000	1,250,000	1,250,000

Explanation of Performance Data for Key Enterprise Outcome Measures:

While the MCC sales staff has been merged into the Greater Minneapolis Convention and Visitors Association, all GMCVA and MCC staff play a role in securing and retaining clients. While economic impact is not figured into the bottom line of our budget, these figures are provided as a benchmark for new dollars carried into the market by MCC delegates and the total number of people who utilize the Center in a given year. Please note that changes in these two lines are not related as delegate spending is figured on a subset of total attendance.

<u>Primary Business: Providing public assembly space and event related</u> services

(Service activities and performance measures sorted by business)

Service Activity: Event Services: Event Coordination, Production Services

Description: The MCC Event Services Department is responsible for all guest, exhibitor and client services. The work of this Department is driven by the event load in the facility and involves providing all services, and coordinating all eevent logistics.

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Key Performance Measures:

	2000 Actual	2001 Actual	2002 Estimated	2003 Planned	2003 Approved
Attendance	1,000,243	1,000,500	1,100,000	1,250,000	1,250,000
# of events	534	547	625	700	700
Event days	1,199	1,200	1350	1500	1500
Exhibit Hall Occupancy	83.00%	83.00%	67.00%	73.00%	73.00%
Average delegate expenditure	925	925	961	961	961
Total Convention delegate spending	127,545,000	125,545,000	170,274,000	177,970,000	177,970,000
Customer Satisfaction Ratings-Overall (5-point scale)		4.47	4.5	4.6	4.6

Explanation of Key Performance Measures:

These measures identify utilization of the facility. The MCC staff is not tasked with booking the facility, it does provide the types of service to more fully enhance the capacity utilization of the facility. In 2003, the MCC is introducing a new performance measure, overall customer satisfaction rating, based on customer service surveys. This measure provides the most direct measure of the MCC's ability to service our clients. In 2001 and 2002, the MCC was able to maintain extremely high averages throughout construction. Estimates for 2002 and 2003 are above previous year totals based on additional space, however they are below earlier projections.

<u>Service Activity:</u> Facility Services: Business Services, Facility Operations, Safety and Security

Description: The facility services department is responsible for all facility and staff needs as well as all internal services. The facility services department is also the bridge to centralized City services including ITS, Finance, and Human Resources.

Key Performance Measures:

	2000 Actual	2001 Actual	2002 Estimated	2003 Planned	2003 Approved
Annual operating expenses	12,157,611	12,621,710	16,468,072	19,968,207	19,968,207
Annual earned revenue	8,892,139	8,839,895	11,187,542	13,205,500	13,205,500
Percentage of Non-Rental Revenue	52.6	51.5	51.6	57.0	57.0

Explanation of Kev Performance Measures:

The key measure for facility service is the ability to maintain efficient expense budgets. In 2003, the MCC is introducing a new measure, Percentage of Non-Rental Revenue. This is a strong measure, tracked for the first time, of how successfully new revenue streams are pursued. In 2003 the MCC will attempt to gain approximately a five-percent increase in the ratio of non-rental to rental revenue. By finding new ways to increase revenue outside rental, the MCC can begin to insulate itself more from small variances in the business cycle, and in difficult times, as it is facing in the short-term, it can help control operating deficits.

Service Activity: Tallmadge Building Operations

Description: The MCC also is reponsible for overseeing the management of the Tallmadge Office Building located at 1219 Marquette.

Key Performance Measures:

	2000 Actual	2001 Actual	2002 Estimated	2003 Planned	2003 Approved
Annual operating expenses	234,557	224,617	200,000	204,000	204,000
Annual earned revenue	287,833	290,000	290,000	300,000	300,000
% Occupancy	91.36%	89.21%	89.21%	92.66%	92.66%

Explanation of Key Performance Measures:

The MCC tracks three main performance measures with respect to the Tallmadge Building: Revenue, expense and occupancy. Performance in these areas in 2003 is expected to be similar to previous years.

Service Activity: Parking Ramp Operations

Description: The MCC staff manages the parking ramp immediately east of the facility. Beginning in August 2002, the MCC will begin to recoup revenue from approximately 270 parking spots. Until July 2003, sales will be limited to staff and clients. As of July 2003, by the terms of it's agreement with Central Lutheran Church, the MCC will be able to sell to the general public.

Key Performance Measures:

	2000 Actual	2001 Actual	2002 Estimated	2003 Planned	2003 Approved
Annual operating expenses	135,745	214,143	240,050	255,500	255,500
Annual earned revenue	25,845	12,200	60,000	200,000	200,000

Explanation of Key Performance Measures:

Revenue and Expenses are measured for the parking ramp. While fixed expenses have risen during the first two years of operation, the MCC will be able to apply revenue from paying clients beginning 2002 and 2003. The long-term expectation with including public sales will be to maintain a breakeven position. It is important to note that, by agreement with Central Lutheran Church, the MCC is responsible for all upkeep and maintenance while only recouping revenue for one-half of the parking spots.

Financial Analysis:

For 2003, the Minneapolis Convention Center's (MCC's) contributions to the MCC Operations Fund are estimated at levels below those of 2002. Revenue estimates from operations for 2003 have been lowered by 3.3% to \$14.3 million. Booking activity for events is down and the full potential is not expected until after 2003 as the hospitality industry is suffering post 9/11 changes. For 2002, the increase in the revenue budget was based on the MCC expansion, with space rates based on a 75% occupancy. Actual occupancy has been at levels lower than previously estimated.

On the expense side, the MCC's \$21.0 million budget is funded 100% from the MCC Operations Fund. The total expense budget increase of \$1.1 million, or 5.7% over 2002, includes personnel expense increases due to benefits increases and job reclassifications; additionally, the budget was increased \$500,000 on the expense side, and \$560,000 on the revenue side as a Council adopted technical adjustments to account for Event Security and Emergency Medical services provided on-site; these services are expensed through the MCC and billed-through to clients. The equipment expense budget has been reduced 25% as interior painting and carpeting projects were completed as part of the expansion in 2002; excluding these expenditures from the base, the rate of increase for equipment expense was 5.1%.

The GMCVA (Greater Minneapolis Convention & Visitor's Association) is a separate contractual expense. The GMCVA is budgeted from the MCC Operations Fund and for 2003 this amount has been reduced by \$425,000 upon completion of a one-time expense budget increase in 2002 for the grand opening of the MCC expansion.

Summary of Target Strategies:

Not Applicable

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CONVENTION CENTER Expense Information

	2000 Actual	2001 Actual	2002 Adopted Budget	2003 Adopted Budget	% Change 2002 to 2003	Change 2002 to 2003
Special Revenue Funds						
Contractual Services	4,927,401	5,496,888	7,514,578	7,998,492	6.4%	483,914
Equipment	1,219,084	618,902	1,334,000	993,480	-25.5%	-340,520
Fringe Benefits	1,232,074	1,343,734	2,406,113	2,759,249	14.7%	353,136
Operating Costs	450,637	488,233	921,671	1,057,266	14.7%	135,595
Salaries and Wages	4,698,717	5,081,151	7,685,144	8,189,801	6.6%	504,657
Total for Special Revenue Funds	12,527,914	13,028,907	19,861,506	20,998,288	5.7%	1,136,782
Total for CONVENTION CENTER	12,527,914	13,028,907	19,861,506	20,998,288	5.7%	1,136,782

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CONVENTION CENTER Revenue Information

Chaoial Bayanya Funda	2000 Actual	2001 Actual	2002 Adopted Budget	2003 Adopted Budget	% Change 2002 to 2003	Change 2002 to 2003
Special Revenue Funds	2 446 505	2 506 704	4 266 690	4 740 000	0.60/	276 111
Charges for Service	2,416,505	2,506,704	4,366,689	4,742,800	8.6%	376,111
Interest	0	-0	0	0	0.0%	0
Other Misc Revenues	1,932,052	1,718,297	2,447,634	2,432,500	-0.6%	-15,134
Rents	4,857,260	4,921,217	7,937,603	7,090,200	-10.7%	-847,403
Sales and Other Taxes	48,325,891	47,604,090	48,682,000	49,139,000	0.9%	457,000
Total for Special Revenue Funds	57,531,708	56,750,308	63,433,926	63,404,500	-0.0%	-29,426
Total for CONVENTION CENTER	57,531,708	56,750,308	63,433,926	63,404,500	-0.0%	-29,426

GMCVA Expense Information

	2000 Actual	2001 Actual	2002 Adopted Budget	2003 Adopted Budget	% Change 2002 to 2003	Change 2002 to 2003
Special Revenue Funds Contractual Services	5.004.700	6.595.065	6.402.299	6.480.000	1.2%	77,701
Total for Special Revenue Funds	5,004,700	6,595,065	6,402,299	6,480,000	1.2%	77,701
Total for GMCVA	5,004,700	6,595,065	6,402,299	6,480,000	1.2%	77,701

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CONVENTION CENTER Staffing Information

	2000	2001	2002 Adopted Budget	2003 Adopted Budget	% Change 2002 to 2003	Change 2002 to 2003
FTE's by Division Convention Center Operations	141.40	201.20	213.60	213.60	0.00%	-
Total FTE's	141.40	201.20	213.60	213.60	0.00%	-

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